

The Few, The Proud, The Potential Millionaires
EWS Contemporary Issue Paper
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to
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"Hey Marine, do you want a few hundred thousand dollars?" Undoubtedly, everyone, not just young Marines, would answer "YES!" However, the answer would likely be less resounding if you then asked them if they could wait thirty or forty years for the money. Long term planning is difficult. It becomes even more difficult when the planning that is required involves complex decisions about issues most young Marines have no experience in dealing with - money, budgeting, economic markets, and retirement.

As a result, I propose that Marines should be *automatically* enrolled into the Life Cycle ("L") fund of the Thrift Savings Plan (TSP) upon arrival to The Basic School (TBS) or recruit training in order to promote retirement savings at a young age, have "inertia" work for them, and establish effective budgeting from the start. Automatically enrolled Marines would have 3% of their basic pay automatically contributed as soon as they began service, and would have 90 days to stop the contributions and get a penalty free refund if they did not want to continue participation. An additional 1% of their basic pay would be automatically contributed each year, to a maximum of 6%. Increases beyond 6% would need to be made by the Marine.

The Thrift Savings Plan Benefits

The TSP is a program that was originally geared only toward federal employees. It was not until 2001 that the program was expanded to uniformed service members. The TSP allows Marines to save and invest a percentage of their pay for their retirement above and beyond the traditional military pension retirement.

Similar to civilian "401(k)" retirement plans, the TSP offers tax benefits. The benefit to the Marine is that "pre-tax dollars" (up to \$15,500 per year) go into the plan, ultimately lowering the Marine's taxable income. The Marine is only ultimately taxed on the earnings gained by the funds when funds are finally withdrawn at retirement.

Another benefit of the TSP is that the administrative fees for running the fund are extremely low. In 2006 the cost averaged about 30 cents for every \$1,000 invested. Compared to civilian "401(k)" retirement plans, federal employees receive an excellent bargain in retirement investing.¹

The Current Enrollment Process for Marines

There is currently not an automatic enrollment process for Marines, either officer or enlisted. In fact, there is not much attention or assistance provided in order to enroll at all. As a result, only about 25% of service members participate in the TSP. All that is done at either TBS or recruit training is a basic "power point" brief on TSP and how it works. For example,

at the conclusion of a brief given at The Basic School (TBS), Lieutenants are told on the "power point" slide, "read the TSP information briefs on MarineOnline; ask your admin clerk for the TSP Election Form (TSP-U-1), or download from www.tsp.gov; call the ThriftLine, 1-877-968-3778."

Why automatic enrollment?

Unfortunately, saving for retirement is not something that is the priority of a typical young Marine. This is unfortunate as these years can be the most prosperous years when the time comes to retire if sound investment decisions are made. When a Marine is faced with complicated long term financial decisions, along with screaming drill instructors, it is unreasonable to assume that the necessary steps will be taken to make long term investment decisions. The investment market is a scary place with lots of important decisions to be made. Under the current TSP enrollment process, a Marine who is considering enrolling must make multiple decisions that he or she may not feel qualified to make, including how much to save and what "funds" to choose.

It is important to note the benefits of automatic enrollment into retirement plans being witnessed currently in the civilian sector of employment. It is becoming more and more common because it works. Automatic enrollment is "a common sense approach to help people get over the barrier of inertia

and through the twin decisions regarding how much to contribute and what to invest in" says Mark Iwry, senior advisor to the Retirement Security Project and nonresident senior fellow at the Brookings Institution.² Further, "more than 90% of workers who are automatically enrolled in 401(k) plans administered by T. Rowe Price stay in the plan," the fund company says.³ As early as 2005, more than twenty five percent of large companies automatically enrolled their new employees in their "401(k)" plans.⁴ New helpful legislation guidelines also allows "employers to set default contribution levels for new employees of least 3 percent of compensation and allow for automatic escalation of a percentage point a year up to a minimum 6 percent by the fourth year of participation" which is similar to my current proposal.⁵

Why the "L" fund?

If a Lieutenant or recruit finds the time to voluntarily enroll on his or her own, they are automatically enrolled in the conservative Government Securities Investment (G) Fund. This fund is one of five primary TSP funds and is comprised of short-term government securities (money market). The remaining funds are the F Fund (bond index fund), C Fund (large company (S&P 500) index fund), S Fund (small/medium company index fund), I Fund (international stock index fund), and five L Funds (lifecycle fund) catered to the Marine's intended retirement

year. Each L Fund plan has a different level of risk based on the Marine's time to invest. For example, a Marine just entering into the Marine Corps could sign up for a L Fund 20 or 30 year plan that allows a much higher risk than the five year L Fund plan for someone approaching retirement.

L Funds "invest in all five underlying funds at different percentages based on when a participant expects to begin making withdrawals. The L Funds' goal is to provide the highest possible rate of return for the risk taken."⁶ The Marine, once enrolled and established in the TSP system and in receipt of a pin number, may go on line and manipulate his account to his desired Funds.

The L Fund is the superior fund choice for automatic enrollment. For the 12 months ending in May 2007, the G Fund had a return of 4.92 percent, while returns in the L Funds ranged from 8.64 percent to 20.92 percent. The L Fund does have a higher risk level than the more conservative G Fund. However, the difference in the expected rates of return could result in a much greater retirement income. For young investors who are many years away from retirement, with time to allow for correction of a down turn in the market, investment principles allow for the acceptance of more risk.⁷

What is Currently Being Proposed and What are Some Safeguards?

Automatic enrollment is being proposed to Congress by the Federal Retirement Thrift Investment Board (FRTIB) for automatic enrollment to be implemented to uniformed service members upon entry into the military. In addition, under this proposal, each service member will have the option of submitting a form to decline the program within 90 days of entry to the service with no penalty.

Statistical studies have shown that this would be a smart proposal. Gregory Long, executive director of the Thrift Savings Board, said, "48 percent of participants who joined TSP in the first quarter of 2004 still had 100 percent of their account balance in the G Fund three years later, and 68 percent of those participants were under 40 years old."⁸ The FRTIB proposal recommends starting with 3% of the service member's basic pay automatically upon entry into the service. The pay would be sent directly into an L Fund vice the G fund that enrollments are currently sent into. This proposal is something that will help steer young service members up the right path with their financial investments starting early when it will be most advantageous to that member. The Board has recognized that they must assist with decisions that are in the best long-term interest of their participants and believe "the L Fund is the way to go."⁹

Resistance?

The overall consensus among surveys and discussion groups is that automatic enrollment is a good thing. In fact, in a 2006 Retirement Confidence Survey, the Employee Benefit Research Institute found "two-thirds of its respondents viewed both automatic contributions and automatic escalation of contribution levels favorably." In addition, "close to sixty percent welcomed access to default allocations and being spared from making their own investment decisions."¹⁰ Automatic enrollment supporters also "say it's the most effective way to combat the inertia that keeps people from signing up for their employer's savings plans."¹¹

Marine Corps Colonel Adrienne Fraser-Darling, who represents the military on the advisory council, said the military endorses automatic enrollment because it would compel young recruits to start saving. She states that recruits are "not going to opt out. The majority of them aren't going to miss {the income}, but then in four years they've got something in savings."¹²

Conclusion

It is important to remember that automatic enrollment does not mean mandatory enrollment and participation. The choice to not participate would be a personal choice that does not need approval from a Marine's chain of command. The above

recommendation of automatic enrollment, into the L Fund, at 3% of basic pay, is a way to simply help inexperienced Marine investors get off to a good start. Opting out of the plan should be easy as well and no penalty should be incurred if a Marine chooses not to participate in the TSP.

However, the future is hard to conceptualize for someone who is already overwhelmed with the investment intricacies that can be very intimidating. Automatic enrollment into TSP is a great foundation to start and a great way to help young Marines secure their financial futures.

Word Count: 1,649

Notes

¹ David C. John, "Congress Should Add Auto-Enrollment to the Thrift Savings Plan, But Resist Interfering in its Investment Choices," WebMemo, Published by The Heritage Foundation, No. 1637, September 24, 2007.

² Ronan, 2.

³ Sandra Block, "Automatic enrollment in 401(k) plan is first step," USA Today, <[Http://www.usatoday.com/money/perfi/columnist/block/2006-09-04-auto-enroll_x.htm](http://www.usatoday.com/money/perfi/columnist/block/2006-09-04-auto-enroll_x.htm)> 30 October, 2007

⁴ Block, 1.

⁵ Ronan, 2.

⁶ Tim Kauffman, "Council backs plan to enroll new employees in TSP L Fund," Federal Times.com

⁷ Kauffman, 1.

⁸ Kauffman, 1.

⁹ Kauffman, 1.

¹⁰ Ronan, 3.

¹¹ Block, 1.

¹² Kauffman, 1.

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